

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: REVIEW OF PURCHASED GAS ADJUSTMENT RULES	DOCKET NOS. NOI-03-1 WRU-03-36
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ORDER INITIATING INQUIRY AND GRANTING LIMITED WAIVER

(Issued July 18, 2003)

BACKGROUND

The Utilities Board (Board) has allowed rate regulated gas utilities to pass purchased gas costs through to ratepayers under the provisions of 199 IAC 19.10 for more than 20 years. The provisions in rule 19.10 establish the various components and the formula for calculating the purchased gas adjustment (PGA) factor to be included in customer rates. Rule 19.10 has been updated and revised on several occasions, but the basic formula and mechanism has remained unchanged.

Significant changes have occurred in the natural gas industry over the past several years that have affected the price of natural gas and the natural gas market. Natural gas commodity prices have become increasingly volatile, which has significantly affected customer's bills. Regulated gas utilities have begun use of financial hedging tools for commodity prices and volumes in an attempt to reduce the volatility of gas prices to the customer. In addition, the utilities have raised concerns

about the use of historical peak data to determine reasonable reserve capacity, as required by 199 IAC 19.16.

NOTICE OF INQUIRY

The Board is opening this inquiry to allow interested persons to propose amendments to the PGA provisions in 19.10 and 19.16. This docket has been identified as Docket No. NOI-03-1. Interested persons should provide responses to the initial set of issues set out below. Interested persons may also raise any additional issues they believe should be considered in this inquiry.

Once the Board has reviewed the initial responses, it will determine if additional questions need to be addressed and in what format. The Board is appointing Bob LaRocca as the Inquiry Manager for this docket. Questions about the docket should be addressed to Mr. LaRocca, (515) 281-5898, email Bob.LaRocca@iub.state.ia.us.

Persons interested in participating in this inquiry shall file in this docket the following information: Name of the participant/organization, contact person, mailing address, phone number, facsimile number, and electronic mail address. If more than one person from any entity is planning to participate, the confirmation shall include the names of all participants, but designate a single contact person. Once the Board has reviewed the responses and replies, it will decide what further proceedings or filings are necessary.

Responses should address the issues set out below.

1. The general viability of rule 19.10 in the current natural gas market.
2. Responses addressing individual subrules should include the following information:
 - a. Whether the subrule is still applicable to current conditions in the natural gas market.
 - b. Whether the subrule should be revised or deleted.
 - c. Any proposals for replacing the subrule.
3. If the proposal is to replace all of rule 19.10, provide a detailed description of the mechanism that would replace the PGA factor.
4. Responses addressing rule 19.16 should address:
 - a. Whether the reserve margin established in 19.16 is still applicable in the current natural gas market.
 - b. What methodology should be used in calculating a utility's reserve margin.
 - c. If a forecasted methodology is proposed, provide a detailed description of the method proposed.
5. Whether the Board should still require the filing of the 17 items concerning financial derivatives from Docket No. NOI-94-1 with each utility's PGA reconciliation.

LIMITED WAIVER

Paragraph 19.16(2)"c" of the Board's rules states that the base period demand to establish a utility's maximum peak demand shall be the maximum peak of the previous seven heating seasons, using the 12-month period ending June 30. The 12-month period ending June 30, 1997, has been the maximum peak used for the base period for the past seven years. That peak can no longer be used without a waiver of 19.16(2)"c."

To allow the Board time to consider any proposed revisions to rule 19.16 in this docket and to maintain the historic peak using the 12-month period ending June 30, 1997, the Board will, on its own motion, grant a limited waiver of the seven-year period and allow the use of the maximum peak of the previous eight heating seasons. The waiver has been identified as Docket No. WRU-03-36.

The Board has considered the criteria in 199 IAC 1.3 and finds that the seven heating season period in 19.16(2)"c" could cause undue hardship on gas utilities. The Board finds that the waiver will not prejudice the substantive legal rights of any person, that the seven-year heating season period is not specifically mandated by statute, and that substantial equal protection of public health, safety, and welfare will be afforded by means other than those prescribed in the paragraph. The waiver is applicable to all rate-regulated public gas utilities.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. An inquiry identified as Docket No. NOI-03-1 is initiated concerning 199 IAC 19.10 and 19.16.
2. A limited waiver of the seven heating season period in paragraph 19.16(2)"c" is granted to allow consideration of data from the past eight heating seasons for all rate regulated natural gas utilities.
3. Responses to the inquiries set out in this order shall be filed on or before August 15, 2003.
4. Replies to responses shall be filed on or before September 5, 2003.
5. An original and 10 copies of the responses and replies to responses shall be filed in compliance with 199 IAC 1.8(4)"d."
6. The Records and Information Center shall serve copies of this order on all rate-regulated natural gas utilities.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 18th day of July, 2003.